

## Message Text

UNCLASSIFIED

PAGE 01 PARIS 24849 211131Z

12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03

SS-15 USIA-15 ACDA-19 IO-13 AID-20 COME-00 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

CEA-02 STR-08 DRC-01 AGR-20 /233 W

----- 025385

P R 211026Z SEP 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 3361

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS UNN

UNCLAS PARIS 24849

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS : EFIN, FR

SUBJECT : BANK OF FRANCE TIGHTENS CREDIT POLICY IN EXCHANGE

CRISIS ATMOSPHERE

1. SUMMARY : BANK OF FRANCE MOVED ON SEPTEMBER 20 TO TIGHTEN  
CREDIT POLICY BY CLAMPING DOWN ON BANK LENDING AND RAISING DISCOUNT  
RATE TO 11 PERCENT. THESE STEPS DESIGNED TO FIGHT INFLATION IN  
FRANCE AND RELIEVE PRESSURE

THAT HAS DEVELOPED RECENTLY ON FRANC TO EXCHANGE MARKETS. MASSIVE  
CENTRAL BANK SUPPORT HAS BEEN REQUIRED THIS WEEK TO KEEP FRANC

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PARIS 24849 211131Z

IN EUROPEAN CURRENCY "SNAKE".

WHETHER LATEST FRENCH CREDIT SQUEEZE CAN TURN TIDE IS MOOT,BUT SITUATION DID EASE SOMEWHAT ON THURSDAY, WHEN NEWS OF FRENCH MEASURES REACHED MARKETS. END SUMMARY.

2. ON SEPTEMBER 20, BANK OF FRANCE ANNOUNCED FOLLOWING MEASURES TO TIGHTEN FURTHER CREDIT IN FRANCE :

(A) DISCOUNT RATE INCREASED FROM 9.5 TO 11 PERCENT (THIRD CHANGE IN CURRENT YEAR, WHICH STARTED WITH A RATE OF 7.5 PERCENT).

(B) CEILINGS ON RATE OF GROWTH OF BANK LENDING FIXED THROUGH END OF YEAR AT FOLLOWING LEVELS : END OCTOBER , 14 PERCENT OVER LAST YEAR, END NOVEMBER , 13.5 PERCENT, AND END DECEMBER , 13 PERCENT. RECALL THAT LEVEL FOR END SEPTEMBER WAS ALREADY FIXED AT 15 PERCENT (SEE PARA 2A OF PARIS 18432), DOWN FROM 19 PERCENT FOR END MARCH AND 17 PERCENT FOR END JUNE. IN ADDITION TO LIMITING BANK LENDING, THIS RESTRICTION CARRIES PARTICULAR BITE BY REQUIRING BANKS TO INCREASE MANDATORY RESERVES WITH BANK OF FRANCE AT STIFF PENALTY RATES FOR CREDITS IN EXCESS OF FOREGOING CEILINGS.

(C) EFFECTIVE WITH NEXT REPORTING DATE (OCTOBER 21), RATE FOR MANDATORY RESERVES ON DEMAND DEPOSIT LIABILITIES OF BANKS TO RESIDENT CUSTOMERS INCREASED FROM 12 TO 14 PERCENT.

3. AS SWEETENER, BANK OF FRANCE ALSO ANNOUNCED INCREASE IN RESERVE-FREE BASE FOR CALCULATING MARGINAL RESERVE REQUIREMENT ON LOANS OF BANKS AND OTHER FINANCIAL INSTITUTIONS. HENCEFORTH, RATE OF 33 PERCENT WILL BE APPLIED TO INCREASE IN TOTAL CREDITS OUTSTANDING OVER LEVEL OUTSTANDING AS OF JANUARY 4, 1973 (COMPARED TO PREVIOUS BASE DATE OF JUNE 30, 1972). THIS MEASURE IS ESTIMATED TO RELEASE ABOUT 12 BILLION FRANCS, WHEREAS UPPING OF MANDATORY RESERVES ON DEMAND DESPOITS (PARA 1(C) ABOVE) REPRESENTS NEW PINCH OF ONLY ABOUT 4 BILLION FRANCS.

THUS, MONETARY AUTHORITIES APPEAR TO PREFER PLACING GREATER RELIANCE ON TECHNIQUE OF CURBING OVER-ALL BANK LENDING (PARA 1(B) ABOVE) AND AT SAME TIME TO PROVIDE BANKS SOME TEMPORARY RELIEF ON MANDATORY RESERVE REQUIREMENTS. WITH GROWTH OF PERMISSIBLE BANK LENDING (13 PERCENT BY END OF 1973 OVER LEVEL PREVAILING AT BEGINNING OF YEAR), BANKS WILL DOUBTLESS FIND THEMSELVES HAVING TO RECONSTITUTE THEIR OVER-ALL MANDATORY RESERVES BACK UP TO EXISTING LEVELS IN NOT TOO DISTANT FUTURE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PARIS 24849 211131Z

4. IN PRESENTING 1974 BUDGET TO ASSEMBLY FINANCE COMMITTEE AND PRESS ON SEPTEMBER 19 (SEPTEL), ECONOMICS AND FINANCE MINISTER GISCARD D'ESTAING FORESHADOWED ABOVE STEPS BY INDICATING IN GENERAL TERMS THAT CREDIT POLICY WOULD BE TIGHTENED. HE SAID TARGET WAS TO HOLD GROWTH OF MONEY SUPPLY TO 12 PERCENT IN 1973. FIRST OBJECTIVE OF THESE MEASURES IS, OF COURSE, EFFORT TO COOL CURRENT OVERHEATING OF FRENCH ECONOMY AND TO MODERATE PRICE

INFLATION THAT IS CURRENTLY RUNNING AT ANNUAL RATE OF MORE THAN 9 PERCENT.

5. CREDIT MEASURES ARE LIKEWISE DIRECTED TOWARDS RELIEVING HEAVY PRESSURE THAT HAS DEVELOPED ON FRENCH FRANC WITHIN EUROPEAN CURRENCY "SNAKE." WITH TURNOIL IN EUROPEAN EXCHANGE MARKETS FOLLOWING LAST WEEK'S REVALUATION OF DUTCH GUILDER, AND WITH RESTIVE FRENCH LABOR SITUATION, OPERATORS PICKED ON FRANC AS WEAKEST SISTER AMONG JOINT EUROPEAN FLOAT CURRENCIES. THUS, FRANC HAS BEEN ON FLOOR AGAINST DEUTSCHEMARK, BELGIAN FRANC AND DANISH KRONER FOR MOST OF THIS WEEK, AND MASSIVE SUPPORT BY CENTRAL BANKS IN QUESTION HAS BEEN REQUIRED TO KEEP COMMERCIAL FRANC FROM FALLING TO MORE THAN MAXIMUM PERMISSIBLE DISCOUNT OF 2.25 PERCENT BELOW STRONG JOINT FLOAT CURRENCIES. MARKET GUESSES PUT TOTAL OFFICIAL INTERVENTION THROUGH THURSDAY AT BETWEEN \$1 AND \$1.4 BILLION. IN PARALLEL DEVELOPMENT, SPREAD BETWEEN COMMERCIAL FRANC AND FINANCIAL FRANC (WHICH GETS NO OFFICIAL SUPPORT) HAS WIDENED, WITH LATTER AT ABOUT 5 PERCENT DISCOUNT YESTERDAY. WHETHER LATEST FRENCH CREDIT SQUEEZE CAN TURN THE TIDE IS MOOT, BUT REPORTS FROM FRANKFURT SAY BUNDESBANK WAS ABLE TO WITHDRAW FROM MARKET YESTERDAY WHEN NEWS OF FRENCH MEASURES REACHED FRANKFURT.

6. AS IS NOW TRADITIONAL, UPPING OF DISCOUNT RATE IS DESIGNED TO PUT IT ABOVE INTERBANK QUOTATIONS FOR CALL MONEY, WHICH SOARED TO 10-3/4 PERCENT ON WEDNESDAY FROM TUESDAY'S CLOSE OF 9.78 PERCENT. WHILE DISCOUNT RATE NOW HAS VIRTUALLY NO DIRECT OR MECHANICAL BEARING ON COST OF MONEY IN FRANCE (SINCE BANK OF FRANCE NO LONGER ACCOMMODATES BANKING SYSTEM THROUGH DISCOUNT WINDOW), FRENCH FINANCIAL AUTHORITIES ARE SAID TO HOPE HEFTY DISCOUNT RATE INCREASE WILL HAVE "PSYCHOLOGICAL" EFFECT IN STIFFENING FRENCH INTEREST RATES COMPARED TO LEVELS PREVAILING LAST YEAR, PARTICULARLY IN GERMANY. IRWIN  
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 PARIS 24849 211131Z

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, FOREIGN EXCHANGE RATES, CREDIT PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 21 SEP 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973PARIS24849  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19730919/aaaaaniz.tel  
**Line Count:** 154  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** kellerpr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 AUG 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24-Aug-2001 by cunninfx>; APPROVED <06-Sep-2001 by kellerpr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** : BANK OF FRANCE TIGHTENS CREDIT POLICY IN EXCHANGE CRISIS ATMOSPHERE  
**TAGS:** EFIN, FR, BANK OF FRANCE  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005